CITY OF MOUNTAIN VIEW
MEMORANDUM

DATE: June 23, 2011

TO: NOFA Ad Hoc Committee

FROM: Linda Lauzze, Administrative and Neighborhood Services Manager
Adriana Garefalos, Senior Planner

SUBJECT: JUNE 27, 2011 NOFA AD HOC COMMITTEE MEETING—NOFA PROPOSAL FUNDING RECOMMENDATIONS

PURPOSE OF MEETING

The purpose of the June 27 meeting is for the NOFA Ad Hoc Committee to make recommendations to the City Council regarding the top affordable housing proposals to be considered for funding.

BACKGROUND

The NOFA Committee held meetings on May 16 and June 6 to review and consider four affordable housing proposals that were submitted in response to a $12.0 million Notice of Funding Availability (NOFA) issued February 1, 2011. The NOFA Committee was established by the City Council to identify the top proposals to be forwarded to the City Council for consideration. The June 27 meeting is intended for the Committee to make their recommendations to Council and would be the Committee's last meeting, if the Committee reaches a recommendation.

This memo provides further analysis of the NOFA proposals and funding recommendations for the Committee's consideration. The recommended format for the June 27 meeting is the following:

- Staff Presentation
- Committee Questions of Staff and Applicants
- Oral Communication from the Public
- Committee Discussion
- Motion(s) regarding Committee Recommendations

JUNE 6 MEETING UNRESOLVED ISSUES

The June 6 staff memo identified several unresolved issues regarding the NOFA proposals. This section provides new details regarding these issues.

MidPen Housing

MidPen's proposal did not include a purchase option or appraisal for the project site at 1720 El Camino Real (Tropicana Lodge), so it was uncertain whether they could secure the site. MidPen has now received a definitive answer from the Tropicana owner, as stated in their attached letter (Attachment 1). The property owner has declined their offer to purchase the property and MidPen is, therefore, withdrawing their NOFA application.

ROEM/Eden

New Appraisal

The original appraisal for the ROEM/Eden site considered commercial properties in establishing value and did not consider comparable mixed-use properties or adequately account for the nonconforming uses on the property. A new appraisal has been completed which addresses these issues. The appraisal estimates the value of the property to be $3,020,000, or $880,000 less than the $3.9 million estimated by the first appraisal.

Amended Purchase Option

The current Purchase Option allows ROEM/Eden to purchase the property for $3.9 million. ROEM is working with the property owner to negotiate an amended Purchase Option, based on the new appraised value of $3,020,000. Currently, there is a pending court case between the City and property owner regarding the legality of the duplex structure on the property. The new Purchase Option may include a contingency in the event that the court determines the duplex to be a legal structure; the price for the property would increase by $300,000, to $3,320,000. The $300,000 value for the structure has been determined by the appraiser as the fair market value. It is anticipated that a court date for this case will be scheduled sometime after the August 28 deadline for briefs to be filed. Therefore, the final price of the property will not be available for the NOFA Committee before making a recommendation. A conservative approach to this would be to assume the highest $3,320,000 property price in the Committee's deliberations. It is less problematic if the property ends up being reduced in price from the high-end assumption than if a low-end assumption is used and the price goes up.

Habitat for Humanity

Condominium Conversion Ordinance

As discussed in the June 6 staff memo, Habitat's intention is to retain the exterior of the 106-year-old house and convert the existing six apartments into two new ownership units. The difficulty in retaining the existing home is that the City's Condominium Conversion Ordinance currently prohibits the conversion of apartments to ownership housing.

The City's Condominium Conversion Ordinance was the result of a voter initiative. The ordinance states that an application to convert apartments to condominiums cannot be filed or approved if it will result in the number of apartments being less than the number in existence at the time the ordinance was approved. Currently, there is a deficit of about 303 apartments. Staff has consulted with the City Attorney's Office to determine whether it is possible to amend the ordinance to allow conversion of the 106-year-old home and still be consistent with the voter-passed initiative. The City Attorney has determined that the Conversion Limitation Act cannot be changed. The recent Council approval of two new developments (San Antonio Center and Prometheus projects) will result in the addition of 550 rental units in the next few years. This will make it possible in the future, once the units are built, to consider condominium conversions.

As discussed in the June 6 memo, since the conversion of the house is not currently allowed, the house will need to be demolished (or moved) to allow the Habitat project or any other redevelopment of the site. An Historic Resource Assessment will be prepared and if it concludes that the house is a historic resource, an Environmental Impact Report (EIR) will be required for any demolition of the house. The City Council could approve the demolition of the house by making EIR findings of overriding consideration. If it is determined that the house is not an historic resource, then an EIR would not be required for demolition.

An alternative Habitat identified at the June 6 meeting is for Habitat to partner with another agency that would rehabilitate the house and develop six rental units while Habitat develops six ownership homes at the rear of the property. This alternative will require additional study to determine its feasibility. If the Committee recommends the

Habitat project, this alternative could be explored further and, if feasible, presented to the Council for consideration.

30-Year Affordability Term

One of the NOFA project goals is that housing units will remain affordable for 55 years. The two rental housing proposals will have affordability restrictions for 55 years. Habitat's typical affordability agreement is for a 30-year term to correspond with the mortgage term. The City Council could require a longer-term affordability if desired, and Habitat would enforce the longer affordability.

As shown in Table 1, Habitat has built homes in six Santa Clara County cities. Three cities (Campbell, Cupertino and Los Gatos) have required a 30-year affordability term and three cities (Morgan Hill, San Jose and Santa Clara) have required 45-year terms. A survey of the required affordability terms for Below-Market-Rate homeownership programs[1] shows a range of affordability terms from 20 to 99 years.

For the Habitat projects, the 45-year term has typically been required by cities due to the use of Redevelopment Housing Set-Aside funds for the project. State Redevelopment law requires a 45-year affordability for new construction. The City of Mountain View will not be using Redevelopment Housing Set-Aside funds for the Habitat project; therefore, a 45-year term is not required.

Table 1—Habitat Affordability Terms

Jurisdiction	Habitat Project Affordability
Campbell	30 years
Cupertino	30 years
Los Gatos	30 years
Morgan Hill	45 years
San Jose	45 years
Santa Clara	45 years

Communities that have selected the 30-year term have done so because it will correspond with the payoff of the 30-year mortgage and provides the family more options for financing significant repairs that will likely be needed after 30 years. Also, the 30-year affordability may provide more motivation for homeowners to maintain and invest in the upkeep of their homes. The longer 45- to 55-year term would make it

[1] Programs which require the inclusion of a certain percentage of affordable ownership units in new market-rate housing developments.

less likely that the original owner, who provided the sweat equity, would remain in the house long enough to receive title at the end of the longer term.

On the other hand, a 30-year term could result in only one family benefiting from the home, since it is not unusual for a family to maintain ownership for 30 years. If the Committee feels that the affordability term is critical to the decision on whether to recommend the Habitat project to the Council, the Committee could include a recommendation on the affordability term. Staff is comfortable with the 30-year term proposed by the applicant.

PROJECT FUNDING REQUESTS

Both ROEM/Eden and First Community Housing have submitted revised project budgets and funding requests. This section provides an overview of the project budgets and the funding requests based on the most current information.

First Community Housing

First Community Housing has submitted an updated budget (Attachment 2), which maximizes the use of Stanford funds and reduces the City funding from $3.4 million to $1.1 million. The original budget did not include the Stanford funds but was based on 9 percent tax credits, a small mortgage ($387,000) and a small amount of Affordable Housing Program (AHP) funds ($250,000) in addition to the City funds. The revised budget consists of $3.24 million in Stanford funds, $1.1 million in City funds and $250,000 in AHP funds in addition to the 9 percent tax credits. The use of Stanford funds helps eliminate the need for a mortgage and significantly reduces the City funding. The revised budget also includes a very slight increase of $2 to $8 in the rents.

ROEM/Eden

ROEM/Eden has submitted a revised budget using the new appraised value of the property and maximizing use of the Stanford funds (Attachment 3). The budget assumes the waiver of the City's Park In-Lieu fee, estimated at about $1.1 million. The City's Efficiency Studio Ordinance allows for the Council to waive or reduce City fees, including the Park In-Lieu fee. The Council agreed to waive this fee for the San Antonio Place efficiency studios project. The operating budget has also been revised to include the cost of staffing a 24-hour front desk, as required under the City's efficiency studio ordinance.

The new ROEM/Eden budget does not include the $300,000 site acquisition contingency that may be included in the new purchase option. The $300,000 increase has been included in the budget information presented in this memo. The $300,000 contingency has been added both to the total project cost as well as the funding requested from the City. The ROEM/Eden revised budget includes the use of $4.41 million in Stanford funds, $5.61 million in City funds and $510,000 in AHP funds.

The inclusion of 24-hour front desk staffing has increased the project operating costs and made it necessary to have a significant ($2.2 million) capitalized operating subsidy in the budget. The operating subsidy will cover future operating shortfalls so the project can achieve a positive cash flow. The 24-hour front desk is required for efficiency studio developments.[2]

The capitalized operating subsidy could be reduced to $691,000 and the City subsidy could be reduced to $4.26 million if the project is successful in securing Project-Based Section 8 rental vouchers. The vouchers would subsidize the rents for 13 units and would help offset the operating costs associated with the front desk staffing. Project-Based Section 8 vouchers are awarded by the Housing Authority of Santa Clara County. It is anticipated that a NOFA will be issued later this year for the Project-Based Section 8 vouchers and ROEM/Eden intends to submit an application. The Project-Based Section 8 vouchers are awarded for a 15-year term with the option of a renewal after that.

The budget presented in this report takes a conservative approach and assumes maximum expenses and a need for $5.61 million in City funding to support a staffed 24-hour front desk, with no Project-Based Section 8 assistance and the $300,000 site acquisition contingency. Using this conservative approach will ensure that sufficient funds are budgeted for the project.

Comparison of Project Budgets

Table 2 was provided in the June 6 staff memo and has been updated based on current budget information and includes a separate column showing the price for the site. The percentage of the total project cost requested from the City ranges from 14 percent for First Community Housing to 50 percent for the Habitat project. The funding requests range from $1.1 million for the First Community Housing project to $5.61 million for ROEM/Eden. The City funding on a per-unit basis ranges from $44,100 for First

[2] First Community Housing's project is not defined as efficiency studios because their studio units are too large. As the ROEM/Eden project develops, the option of developing larger studio units and implementing other security measures to monitor the property may be explored by the applicant.

Community Housing to $312,500 for the Habitat project. On a per-person basis, the range is $39,400 for First Community Housing to $95,100 for ROEM/Eden.

Table 2 – Comparison of Proposals

	Total Project Cost				City Funding for Project			
Proposal	Purchase Price (cost/ sq. ft.)	Total Project Cost	Cost per Unit	Cost per Person	City Funding Request	Percent of Total Cost	Cost per Unit	Cost per Person
First Community Housing	$1.17 million $56/sq. ft.	$7.81 million	$312,500 *(25 units)*	$279,000 *(28 persons)*	$1.10 million	14%	$44,100	$39,400
Habitat for Humanity	$1.83 million $66/sq. ft.	$5.00 million	$625,000 *(8 units)*	$104,200 *(48 persons)*	$2.50 million	50%	$312,500	$52,100
ROEM/Eden	$3.32 million $91/sq. ft.	$20.02 million	$357,000[3] *(52 units)*	$314,700[4] *(59 persons)*	$5.61 million	28%	$107,900	$95,100
Totals		$32.83 million			$9.21 million			

Additional Funding That May be Needed for the 4 Percent Tax Credits

The two NOFA rental housing proposals anticipate securing the additional project funding from the 9 percent tax credit program. If these projects cannot secure the 9 percent tax credits, additional funding will be needed to make up the funding gap for use of the noncompetitive 4 percent tax credits. Table 3 shows the additional City funding that would be needed for the 4 percent tax credits, and has been updated based on the current funding requests. In order to fund the Habitat project and both rental

[3] Based on $18,565,929 budget for residential.
[4] Based on $18,565,929 budget for residential.

housing proposals, about $4.2 million in additional funding would be needed for the 4 percent tax credits.

Table 3—Comparison of Funding for 9 Percent and 4 Percent Tax Credits

Applicant	Funding for 9 Percent Tax Credits (millions)	Funding for 4 Percent Tax Credits (millions)	Additional Amount for 4 Percent (millions)
First Community Housing	$1.10	$ 2.13	+$1.03
ROEM/Eden	5.61	8.75	+3.14
Habitat for Humanity	2.50	2.50	-0-
Total	$9.21	$13.38	+$4.17

Stanford Fund

The Stanford Fund is administered by the County of Santa Clara and supports affordable rental housing within six miles of the Stanford campus. Both the First Community Housing and the ROEM/Eden projects qualify for this fund and have revised their budgets to use this fund. The proposals qualify to receive up to $150,000 for each extremely low-income housing unit and $120,000 for each very low-income housing unit that is developed.

The County has issued a NOFA for the fund balance of $8.0 million. Proposals are funded on a first-come basis and the County can close the NOFA at any time. The County's practice is to consider projects after the City funding is in place and all entitlements are received. Currently, there are no applicants for the funds; however, this situation could change. Also, units targeted to extremely low-income households (30 percent AMI) are the funding priority for the Stanford funds. The County could decide not to provide funding for the very low-income (50 percent AMI) units, even though the NOFA allows for very low-income units to be funded. The uncertainty of this funding source will need to be considered in determining how much funding to reserve for the NOFA proposals.

UPDATED COMPARISON CHART

The detailed comparison chart that was provided in the May 16 and June 6 staff memos has been updated based on the current proposal information (Attachment 4). The chart has also been expanded to include the following information requested at the June 6 meeting: project cost and funding on a per-person basis; developer cost; self-scored tiebreaker; number of parking spaces; density; project schedule; and if there would be a need for City purchase of the property. This section provides additional information regarding the developer costs, tiebreaker score, project schedule and City ownership of property.

Developer Costs

Under the Low-Income Housing Tax Credit Program, developers are entitled to a "developer's fee" which serves as payment for the developer's services, overhead and profit. The amount of the developer's fee is determined by a tax credit program formula and is received by the developer in four installments at key project completion target dates.

The proposed developer fee amounts are consistent with the tax credit program requirements. As shown on Page 6 of the Comparison Chart (Attachment 4), the developer fee for the tax credit projects ranges from $808,400 (10 percent of total project costs) for the First Community Housing project to $1.6 million (8 percent of total project costs) for the ROEM/Eden project. The Habitat budget identifies a "developer fee" of $287,650 (5.75 percent of project cost) for their expenses/payment in carrying out the project. The Habitat project does not involve use of tax credits; therefore, the Habitat developer fee is established by the agency based on their administrative and overhead expenses in carrying out the project, and is the lowest of the three projects.

Tiebreaker Score for 9 Percent Tax Credits

Due to the highly competitive nature of the 9 percent tax credits, typically a large number of applications receive a perfect score under the general scoring criteria. Since there are only enough tax credits for one or two projects from this region, a tiebreaker system is used to select the top projects. Currently, the tiebreaker system relies heavily on the percentage of local funding. Applicants who have the highest percentage of local funding receive the highest tiebreaker score and are selected for an award of 9 percent tax credits. The applicants have developed their tiebreaker scores based on the successful tiebreaker scores of the most recent tax credit awards. First Community Housing's tiebreaker score is 78.62 percent and the ROEM/Eden tiebreaker score is 78.4 percent. Both tiebreaker scores are over the 78 percent tiebreaker that was needed during the last application cycle to be successful.

Project Schedule

The proposals selected for funding will go through the City's development and design review process, which is expected to take a minimum of 9 to 12 months. The ROEM/Eden and Habitat proposals may involve some additional steps and additional time in the process. The ROEM/Eden property would require a rezoning and General Plan amendment, which may take longer since it requires a more-detailed analysis and consideration of the long-term implications of the land use change. The Habitat project will involve preparation of a historic resource assessment and, if the house is determined to be an historic resource, an EIR will be required to demolish or move the house.

Once the entitlement process is completed, it could take a year or longer for projects to secure tax credits and other funding needed to construct the projects. At the earliest, construction could start in the fall of 2013; however, it could take much longer to secure funding, which would delay the start of construction to fall/winter 2014.

City Ownership of Property

The NOFA noted that City purchase of a property would be considered on a case-by-case basis, if necessary, to secure the property while the entitlement process is carried out. This provision was intended to provide an option for agencies in the event they could not obtain an Option to Purchase that was long enough to accommodate both the NOFA process and the entitlement phase of the project.

As shown on Page 3 of the Comparison Chart (Attachment 4), First Community Housing can extend their purchase option to August 2012, ROEM/Eden has until March 2012 and Habitat has until June 2012 to purchase the site. All three agencies indicate it may be possible to secure additional extensions if needed.

At this stage in the process, it is not foreseen that City purchase of any of the properties will be necessary or desirable; however, this situation will continue to be monitored as the selected projects go through the NOFA process. Since all three sites have existing tenants, it would be preferable for the site acquisition to occur by the project developer at the conclusion of the entitlement process. If this is not feasible, other options will be explored, including relocating the tenants and having the City acquire the site once it is vacant. The site could then be transferred to the developer at the conclusion of the entitlement process or the City could maintain ownership of the site and lease it back to the developer. There do not appear to be any particular benefits to the City maintaining ownership of any of the sites and a lease back would not work well for the Habitat ownership project.

PROJECT RECOMMENDATIONS

The Committee is making recommendations to the City Council based on currently available information about the projects. All the details about the projects are not yet known. For example, we do not know if there is historical significance to the 106-year-old house on the Habitat site and we do not know if there will be other acceptable options for the requirement of a 24-hour front desk for the ROEM/Eden project. Some of the project details will be sorted out as the projects move through the NOFA process and others will be addressed during the entitlement process. Also, as the projects go through the design review process, the project design, number of units and number of parking spaces may change, which could result in budget changes. If certain project conditions (such as finding ways to maintain the 106-year-old house on the Habitat property) are important to the Committee's decision regarding whether to recommend a particular project, the Committee may specify what those conditions are as part of the motion to recommend a project.

The NOFA funding will not be committed to the selected projects until after the entitlement phase. At the conclusion of the NOFA process, the Council will award a "Reservation of Funding" to the selected proposals. This will allow the projects to proceed to the entitlement and environmental review process. Some limited predevelopment funding will be needed for architectural and design costs, as well as the environmental analysis. However, the final funding commitment will occur after the projects have received all entitlements and an environmental review has been completed. The final funding commitment will, therefore, occur after the project design and the budget are fully developed and there has been careful consideration of all the project details.

Funding Requests and Available Funds

As shown in Table 4, all the NOFA proposals could be funded with $9.21 million in NOFA funding. Under the worse-case scenario, where both the First Community Housing and the ROEM/Eden projects are not successful in securing 9 percent tax credits and need additional funding for the 4 percent tax credits, the total funding needed is estimated to be around $13.4 million.

Table 4—Funding Requests

Applicant	Funding for 9 Percent Tax Credits (in millions)	Funding for 4 Percent Tax Credits (in millions)
First Community Housing	$1.10	$ 2.13
ROEM/Eden	5.61	8.75
Habitat for Humanity	2.50	2.50
Total	$9.21	$13.38

As discussed in the staff memo for the May 16 meeting, the City Council has approved $12.0 million in housing funds for the NOFA proposals. The $12.0 million was established based on available housing funds as of June 30, 2010. About $3.0 million in additional housing funds have been collected since that time and could be made available for the NOFA proposals, if Council wants to increase the NOFA funding. A total of $15.0 million could potentially be made available for the NOFA proposals.

Also, for Fiscal Year 2012-13, the City is anticipated to have about $600,000 in Federal CDBG/HOME funds which could also be used to supplement the NOFA funding, bringing the total to $15,600,000. The CDBG/HOME funds are awarded through a separate competitive process and the application deadline will be in December 2011, after the Council NOFA selections in November.[5]

Housing Funds

Funds Reserved for NOFA Proposals	$12,000,000
Additional Available Housing Funds	3,000,000
FY 12-13 CDBG/HOME Funds	600,000
Total All Funds	$15,600,000

Funding Options

If the Committee feels that all three NOFA proposals are worthwhile, the Committee could recommend $13.4 million in funding for all three projects, which would cover the additional cost of the 4 percent tax credits. Staff would recommend an even higher increase in funding to $15.0 million to help cover any shortfalls in the amount of

[5] Because the CDBG/HOME funds are awarded through a separate process, they are not included in the recommendations for the NOFA proposals.

funding from the Stanford housing funds. Any NOFA funds not used would go back into the housing fund for use in future NOFAs. The ROEM/Eden project could be recommended with the condition that an amended purchase option is executed by July 1 that is consistent with the appraised value of the property.

Since the current purchase option for the ROEM/Eden proposal is for more than the appraised value, the Committee could decide not to recommend this project. If only the First Community Housing and the Habitat projects are recommended, this would utilize about $3.6 million of the NOFA funding and possibly up to $4.63 million if the First Community Housing proposal is not successful in securing 9 percent tax credits. The Committee could recommend that the remaining NOFA funds be used to issue another NOFA next year for new affordable housing proposals.

Staff is recommending funding for all three proposals. The First Community Housing project will provide affordable rental housing for developmentally disabled persons and the Habitat project will provide ownership sweat equity housing for very low- and low-income families. Both of these housing types are not currently available in the City and the projects will also help to redevelop dated properties. The ROEM/Eden project will provide affordable efficiency studio units and will help redevelop a dated property with Zoning Code violations and nonconforming conditions, which will help improve the neighborhood. The recommendation for the ROEM/Eden project is contingent on an executed purchase option for the fair market value of the property.

NEXT STEPS

At the June 27 meeting the Committee is being asked to make recommendations to the City Council regarding the top proposals. Following the Committee's recommendations, the applicants will meet with tenants on those properties to inform them about the project and possible relocation benefits. A neighborhood meeting will be held for each of the top proposals to provide an opportunity for the applicants to present their proposals to neighborhood residents and respond to questions. The NOFA Committee recommendations along with input from the neighborhood meetings will be forwarded to the City Council for consideration in determining which proposals to fund.

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Attachments:
1. MidPen Letter
2. First Community Housing Revised Budget
3. ROEM/Eden Revised Budget
4. Comparison Chart